

# ANNUAL REPORT

JUNE 30, 1977

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DIGITECH LTD.

A RESOURCE DEVELOPMENT SERVICE COMPANY

**DIRECTORS:**

Donald C. Burt, President, Digitech Ltd., Calgary, Alberta  
Richard Burke, Vice President, Canadian Enterprise Development Corporation Limited, Vancouver, B.C.  
E. Keith Conrad, Partner, Conrad, Wilson & Hawley, Calgary, Alberta  
Roderick R. McDaniel, President, McDaniel Consultants (1965) Ltd., Calgary, Alberta  
David B. Nicholson, President, PanCana Industries Ltd., Calgary, Alberta.  
Donald W. Simpson, Vice President, Digitech Ltd., Calgary, Alberta  
Donald G. Thurston, Vice President, Bow Valley Resource Services Ltd., Calgary, Alberta

**OFFICERS:**

Donald C. Burt, President  
E. Keith Conrad, Chairman of the Board  
W. D. DeGraff, Secretary-Treasurer  
Roger R. Rose, Vice President  
Donald W. Simpson, Vice President  
Neil M. Thompson, Vice President

**HEAD OFFICE:  
DIGITECH LTD.**

500, 441 - 5 Avenue S.W.  
Calgary, Alberta T2P 2V1

**TRANSFER AGENTS AND REGISTRARS:**

Montreal Trust Company  
Calgary, Toronto and Vancouver

**AUDITORS:**

Price Waterhouse & Co.  
Calgary, Alberta

**LEGAL COUNSEL:**

Macleod Dixon  
Calgary, Alberta

**BANKERS:**

The Toronto Dominion Bank  
Calgary, Alberta

**STOCK LISTED:**

Toronto Stock Exchange



# REPORT TO THE SHAREHOLDERS OF DIGITECH LTD.

It is with pleasure that we are able to report a profitable year's operation. Digitech Ltd. recorded a profit of \$231,000 for fiscal 1977, as compared to a loss of \$455,000 for fiscal 1976. Revenue increased 18% to 4,399,000 in fiscal 1977 over fiscal 1976 revenue of \$3,729,000. The fourth quarter was a record quarter for Digitech, both in profits and sales. Compared to the corresponding period of fiscal 1976, revenues increased 69.2% with cost of sales increasing by 18.9%, resulting in a profit of \$306,000 in the fourth quarter as compared to an operating loss of \$100,000 incurred during the comparative period in 1976. This profit was achieved despite a disastrous first four months resulting in an accumulated loss of \$190,000. It is evident that a remarkable turnaround in company fortunes has occurred during the past fiscal year. I would like to elaborate briefly on some of the reasons that I feel were instrumental in this achievement.

The first and foremost is a dedicated and competent staff who laboured long hours to turn out superior products in increasing volumes. In the computer service industry, it is the quality of personnel that often dictates success or failure and our success of the past year is indicative of the quality of the people who work at Digitech.

A successful company must also have the production capacity to meet current and future needs. The addition of modular memory to our UNIVAC 1106 computer in March increased total capacity allowing an increase of 18% in the Seismic revenue and of 10% in the Computer Services revenue in the fourth quarter. The addition of two new digitizers to better service large digitizing contracts has been a significant factor in the increase of 43% in the Geological & Engineering revenue. Our major contract will continue through fiscal 1978.

Increased emphasis was placed on marketing Digitech's products through the acquisition of controlling interest in the consulting, marketing firm, Nobbs, Buchner & Associates Ltd. and the issuance of several new product and corporate promotional brochures. Extracts of the corporate brochure have been included in this Annual Report. The concentrated marketing effort by all personnel provided a significant contribution to the overall corporate performance.

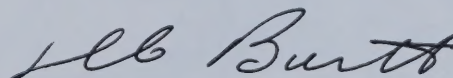
During the year, software modifications have resulted in more efficient utilization of hardware, which, in turn, resulted in increased production.

In the last quarter, Digitech Inc., a wholly owned subsidiary operating in Denver, was sold to its employees. The decision of the Directors resulted from a study which indicated that a substantial financing commitment would have to be made toward expansion of the facilities in order for Digitech, Inc. to become profitable.

Some changes in key personnel took place during the year. Mr. John Boyd, a Director and Vice-President of Marketing and Mr. Ray Friesen, Secretary-Treasurer, resigned. Mr. Don Simpson assumed Mr. Boyd's duties and he was replaced as Manager of the Seismic Processing Division by Mr. Hilton Hack. Mr. Darryl DeGraff replaced Mr. Friesen as Secretary-Treasurer.

Our outlook for fiscal 1978 is optimistic. We will continue to market aggressively and will be on the lookout for new and profitable products. We will continue to explore new ways to expand our hardware capacity with as little impact as possible on our costs and the upgrading of software for more efficient use of our machines will continue to have high priority. We will constantly strive to better the services that our customers receive. We know that strong efforts in all these areas are essential if our anticipated growth is to be realized and our operation is to remain profitable.

In closing, I would like to express my gratitude not only to the employees, but also to Mr. Keith Conrad, Chairman of the Board and the Directors of Digitech Ltd. for the encouragement and support I have received during the year and I look forward to this relationship continuing in the years ahead.



President

September 1, 1977.





## DIGITECH—THE COMPANY

Digitech is the largest commercial earth science computer processing company in Canada. Digitech's strength lies in our ability to offer a TOTAL CAPABILITY to the petroleum and other resource industries through our complete range of integrated data processing services.

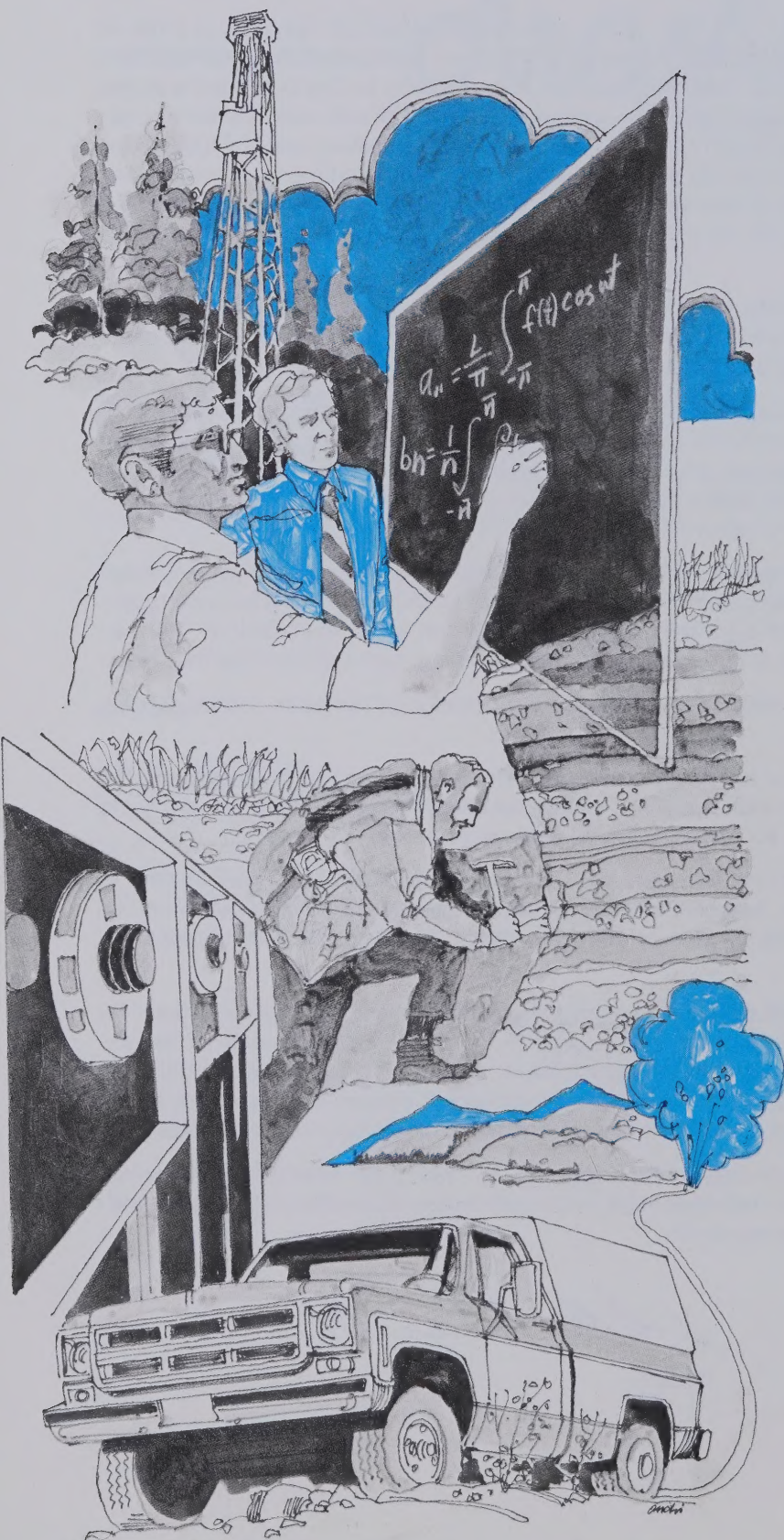
Digitech is an acknowledged leader in the petroleum industry with a continued corporate emphasis on:

- constant and consistent research and development activities;
- depth and breadth of experience and expertise;
- in-depth geophysical and geological expertise;
- combined computer and resource industry experience and expertise to obtain the best 'marriage' of the industry to the technology;
- quality control over all phases of processing;
- an elaborate client data security system to cover all aspects of processing;
- TOTAL CAPABILITY services through our Calgary office.

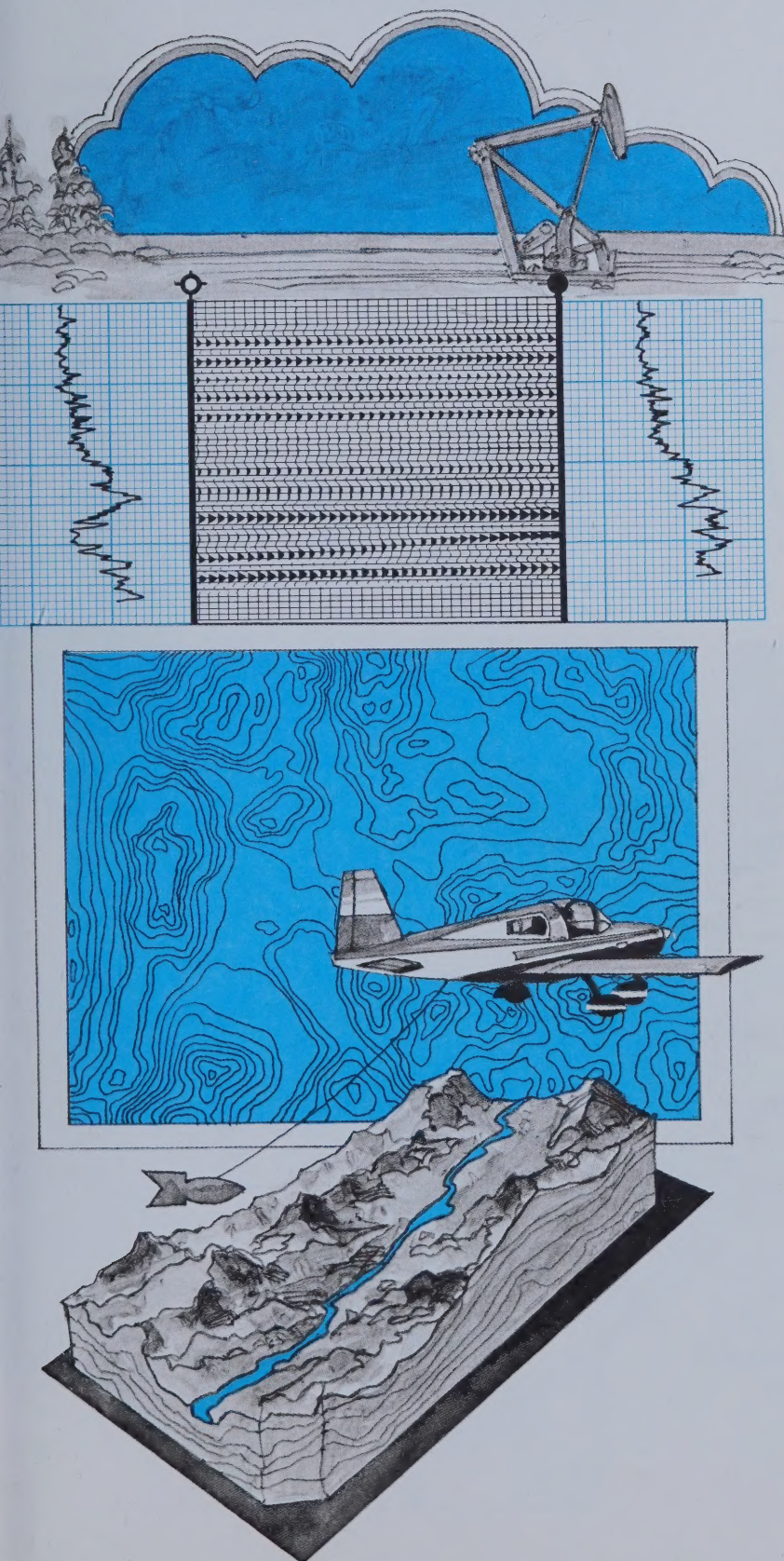
At Digitech, with our staff of experts and advanced technology, we provide the ultimate in 'state of the art' processing.

## GEOPHYSICAL DATA PROCESSING

Since its incorporation in 1966, Digitech has been actively involved in digital processing of land and marine geophysical survey data for the petroleum exploration industry in Canada and abroad. The result of continuous development of software capabilities and processing techniques by an experienced staff of geophysicists and programmers is available to our clients either through contract processing of data, or, if preferred, via our Remote Job Entry (RJE) facilities to access our processing/graphics software.







## GEOPHYSICAL DATA PROCESSING

(Continued)

### SEISMIC PROCESSING CAPABILITY

Our seismic processing software is flexible, efficient and easy-to-use. The software and hardware system operate in full floating point mode throughout. Our seismic software offerings include:

- DSPS (Digitech Seismic Processing System);
- WAV45\*—wave equation migration;
- SONISEIS—wavelet extraction, reflectivity section and inversion to interval velocities;
- multiplex, demultiplex and format conversion/display services;
- REMAP and DEMAP—multiple attenuation.

\*Trademark of Seismic Programming International.

### POTENTIAL FIELD CAPABILITY

Digitech has a variety of programs for data reduction, editing and display of gravity and magnetic data. In addition, the Geo Science Processing System (GSPS) provides access to a variety of analytical statistical techniques such as trend surface analysis with extensive display capabilities available for both two dimensional and three dimensional cases.

### MODELLING CAPABILITY

Digitech's library of over 10,000 well logs from Western Canada, N.W.T. and the east coast makes seismic velocity and horizon information immediately available. Our software will generate synthetic seismograms or sections using standard or client-specified parameters in DSPS format for display or further seismic processing.

#### • Synthetic Seismograms

Standard Sonigrams and custom synthetics are generated from density and/or sonic logs. Wavelets may be selected from an extensive library or may be extracted from real data. Random or systematic noise may be introduced.

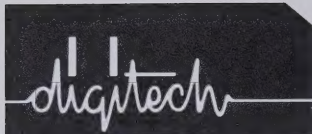
#### • Synthetic Stratigraphic Sections

Continuous sections may be constructed by interpolation between synthetic seismograms or from simplified acoustic models.

#### • Synthetic Structural Sections

Ray tracing methods are used to model structurally complex situations. A geological schematic is input. Diffractions and noise may be added to the synthetic section.





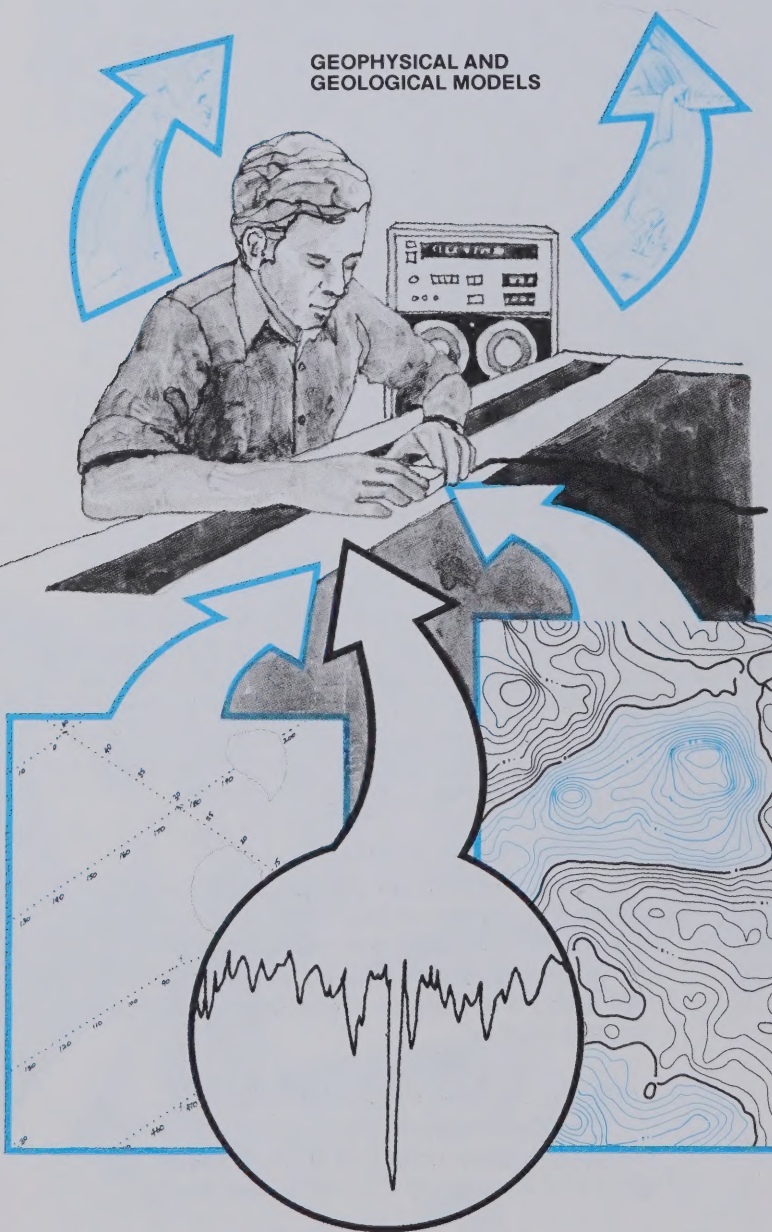
GRAVITY AND MAGNETICS  
PROCESSING MAPS

WELL LOG ANALYSIS

CONTOUR AND TOPOGRAPHICAL  
MAPS

COMPUTER PROCESSING  
AND ANALYSIS

GEOPHYSICAL AND  
GEOLOGICAL MODELS



## DIGITIZING CAPABILITY

Many years of development and experience in digitizing have produced software systems and operating procedures which have made Digitech the acknowledged service industry leader in digitizing capabilities. This leadership has been achieved through:

### ELABORATE QUALITY CONTROL and CORRECTION TECHNIQUES

- utilizing check plots and computer listings in digitizer or engineering units;
- sophisticated digitizing error detection software, ease of digit access for corrections.

### USER ACCESS TO DIGIT FILES

- higher level language interfaces to allow user access to data files.

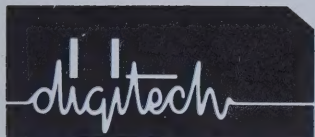
### COMPLETE PRODUCT DEVELOPMENT

- digitize original data;
- design and generate data files;
- design and implement retrieval and update software;
- interface to Digitech several standard report generation and plotting facilities.

### OTHER DIGITIZING APPLICATIONS INCLUDE

- well logs or any analog strip charts;
- contour or topographical maps;
- correlated horizons from seismic sections;
- seismic shot point locations;
- drill stem tests
- gravity or magnetic data by point control.





## GRAPHICS CAPABILITY

Digitech's plotting capability lies in our extensive hardware and software systems. The plotting hardware includes:

**MULTI-COLOR FLATBED PLOTTER** (42" x 57" + .0005" resolution)

- general plotting;
- mapping (posted or contoured);
- Sonigrams and other geological/geophysical graphics;
- drafting.

### PHOTOGRAPHIC PLOTTER

- seismic data display;
- geological and geophysical plotting;
- automatic annotation and label preparations.

### ELECTROSTATIC PLOTTER

- geophysical and geological graphics;
- PERT/CPM charts;
- high speed graphic and text output.

Digitech's extensive plotting software includes:

### GPS (Digitech's Geo Science Processing System)

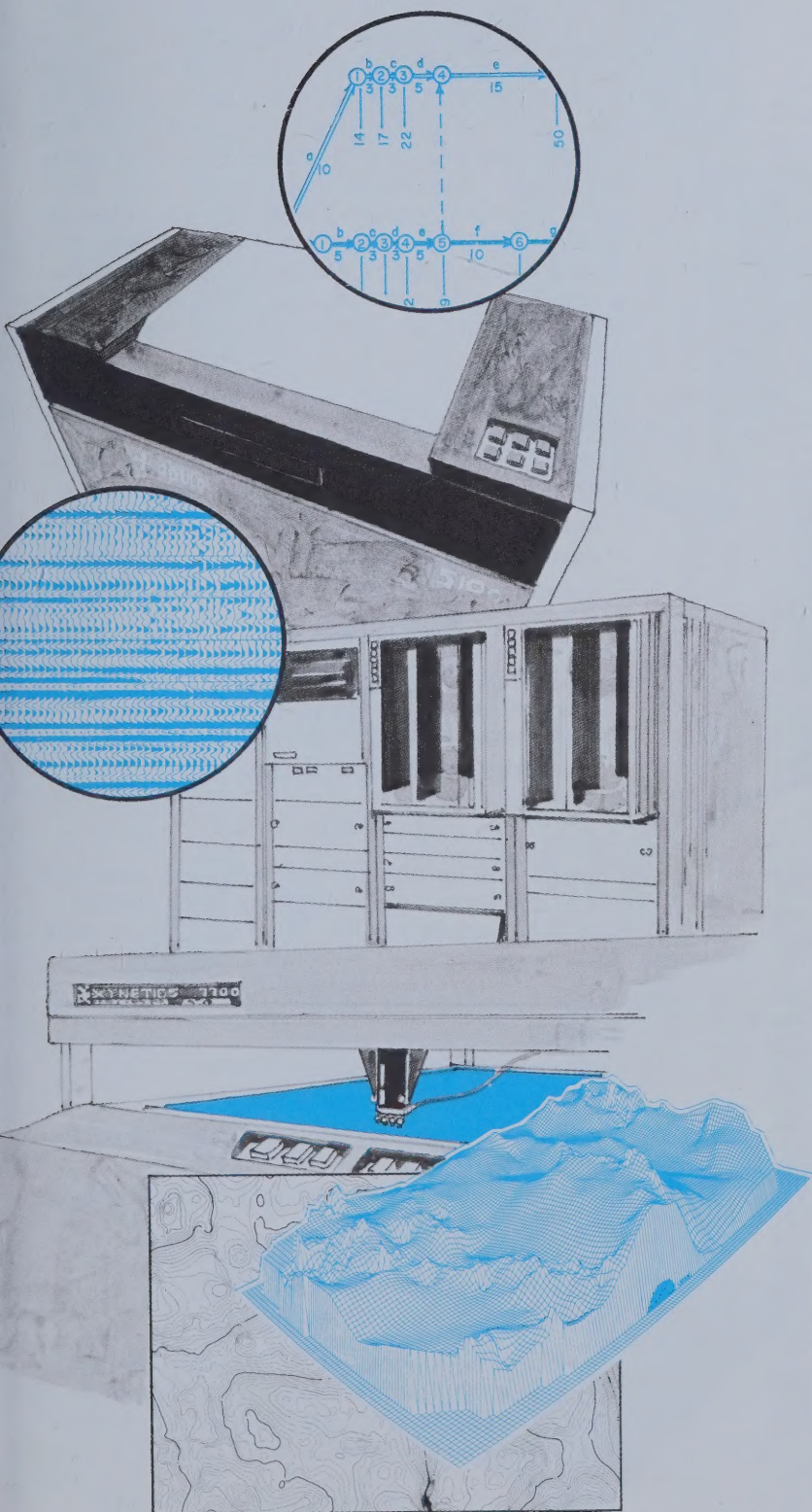
- This generalized exploration graphics system accepts input data files and allows the user to statistically analyse and/or display the data. Profile or map output may be generated without having to specify the format characteristics for a specific plotter. The capabilities of GPS include:
  - input from digitizing system or field recorded cards or tape;
  - outputs of plotted maps, drawings, etc. on desired plotter or graphic CRT;
  - output is processed data files and processing reports;
  - access via remote job entry, over-the-counter or time-share.

### SPECIAL PURPOSE APPLICATIONS SOFTWARE

- geophysical plotting;
- mapping generation;
- drafting.

### CLIENT APPLICATIONS

- Data bases can be designed, generated and implemented through Digitech's software which are tailored to the specific requirements of individual clients.







## INPUT

### • PRODUCTION DATA

- GEOPHYSICAL AND GEOLOGICAL DATA
- RESEARCH
- TESTING DATA
- EXPLORATION DATA
- DIGITIZING DATA

## OUTPUT

- GEOLOGICAL FILES
- PRODUCTION DATA SYSTEMS
- GENERAL WELL DATA
- CLIENT DATA BASE
- LAND FILES
- WELL LOG FILES

## DATA BASE AND FILES CAPABILITY

Digitech specializes in the design, implementation and support of data files through a variety of both internally and externally developed data base management systems. Digitech's Data Base Administration Group is responsible for ensuring the quality, currency and integrity of the data base environment in the areas of creation, maintenance, standards, surveillance and security. This group will assist and support clients in the implementation of client generated and maintained data bases and the access of Digitech generated and maintained files including:

### PDS (Production Data System)

- production and injection information for all wells which produce or have produced hydrocarbons in most of Canada;
- cumulative figures prior to 1962;
- monthly figures from 1962;
- complete graphics capability.

### OMEGA

- general well data/drill stem tests/core analysis/water and gas analysis/drilling statistics/geological markers/etc.
- complete graphics capability.

Digitech will participate in the design, development, implementation and support of special purpose client data bases on a contract or royalty basis under:

### DMS-1100 (UNIVAC's Data Base Management System)

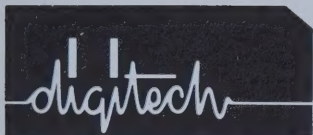
- supports batch or demand users;
- 'state of the art' access techniques;
- multi-user interrogation and update of large data files;
- low computer system utilization requirements.

### DDBM (Digitech's Data Base Manager)

- very efficient data file accessing;
- support batch or demand users.

Access to either client or Digitech developed data bases may be in a time-share and/or batch mode or clients may simply request information retrieval on an over-the-counter basis.





## COMPUTER SERVICES

Digitech's main strength lies in providing services that require an in-depth knowledge of computer, industry applications and how to best 'marry' the applications to the computer in the most cost-efficient manner. Through computer services, Digitech offers substantial experience and expertise in both primary and secondary resource industry applications available to external clients. This total service includes:

### COMPUTERS

- large scale UNIVAC mainframe computing system;
- special purpose mini-computer systems;
- several computer graphics systems.

### COMMUNICATION

- over-the-counter job submission;
- dial-up low speed terminals;
- high speed remote job entry (RJE);
- computer to computer communications;
- time-share or batch operations.

### SYSTEMS and APPLICATIONS SOFTWARE

- wide range of applications software;
- language processors including COBOL, FORTRAN, etc.

### DATA BASE FILE SOFTWARE and SUPPORT

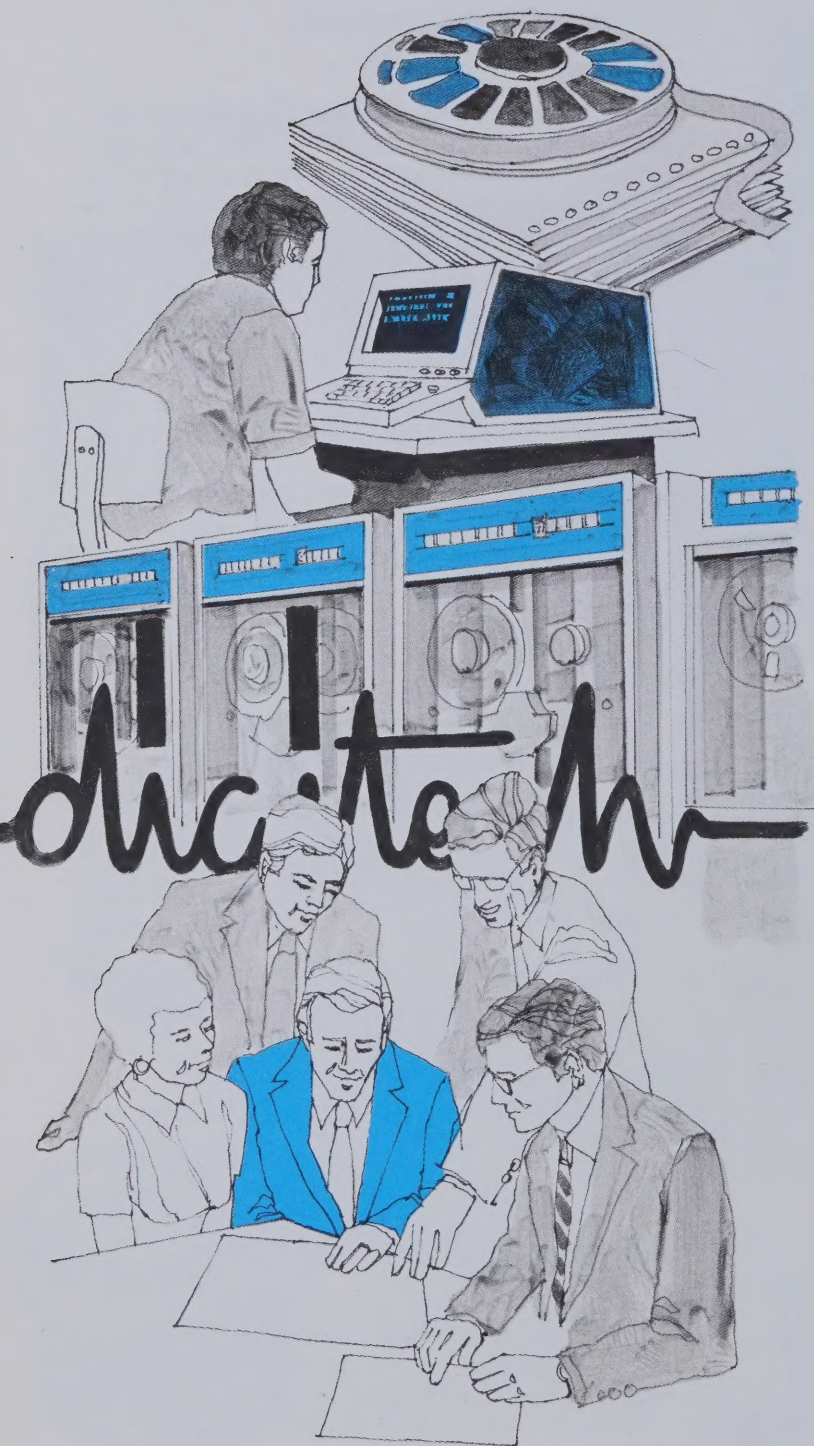
- UNIVAC DMS-1100 (Data Management System);
- access to Digitech supported files;
- implementation and support of client generated data bases.

## CONTRACT SERVICES

Digitech has developed various in-house software products through our internal resources and makes these resources available to external clients via contract services.

- Digitech is prepared to sell and support its internally developed software products. All sales include full documentation, training and support through maintenance, revisions and upgrade.





## CONTRACT SERVICES

(continued)

### CONTRACT SOFTWARE

- Digitech will design, construct and implement custom software to meet the specific requirements of a client. Classes of our software expertise include:
- primary and secondary resource industry applications in terms of exploration, production and modelling;
- data base applications;
- graphics and digitizing applications.

### FACILITY MANAGEMENT SERVICES

- The years of experience in both resource oriented and general data processing have given Digitech its in-depth expertise in optimizing its computer systems - hardware and software. We are prepared to provide assistance to other companies having similar equipment via:
- consulting service on the selection of hardware/software systems;
- supervision of systems hardware/software implementation;
- maintenance and modification of Operating Systems and support utilities;
- custom driver software design and implementation.

## DIGITECH IN RELATED INDUSTRIES

Digitech's expertise lies in providing computer services to the petroleum exploration industry, particularly in geological and geophysical applications. Digitech has also been very successful in obtaining and executing projects which parallel our present experience and expertise. Consider our experience:

- Computer hardware/software operations, limitations and optimum utilization;
- total petroleum industry experience and expertise in geological and geophysical applications;
- in-depth experience in data base management systems, graphics hardware and software, digitizing and modelling applications.

A combination of the above has put Digitech in the position of being able to successfully manage and complete a wide variety of projects in most primary or secondary resource industry applications.



FINANCIAL STATEMENTS — 1977

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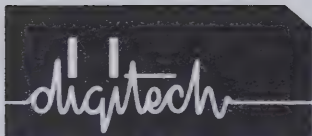
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DIGITECH LTD.

## Consolidated Balance Sheet

as at June 30

### ASSETS

#### Current assets:

|   | 1977               | 1976               |
|---|--------------------|--------------------|
| Cash and term deposits .....                          | \$ 92,758          | \$ 86,096          |
| Accounts receivable .....                             | 782,717            | 515,192            |
| Inventories (Note 2) .....                            | 199,424            | 145,168            |
| Prepaid expenses .....                                | 15,824             | 8,581              |
| Current portion of notes receivable .....             | 2,208              | 2,208              |
|   | <u>1,092,931</u>   | <u>757,245</u>     |
| <br>  |                    |                    |
| Funds held in trust — contra .....                    | —                  | 52,996             |
| Prepaid rentals .....                                 | 10,000             | 10,000             |
| Notes receivable, less current portion (Note 3) ..... | 8,832              | 11,040             |
| Fixed assets, programs and systems (Note 4) .....     | 368,836            | 436,474            |
| Other (Note 5) .....                                  | 12,205             | 350                |
|   | <u>\$1,492,804</u> | <u>\$1,268,105</u> |

### Auditors' Report

To the Shareholders of  
Digitech Ltd.

We have examined the consolidated balance sheet of Digitech Ltd. as at June 30, 1977 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at June 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
August 31, 1977.

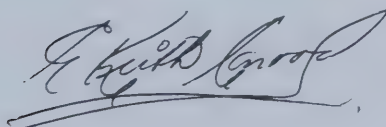
*Pricewaterhouse* v60  
Chartered Accountants



# LIABILITIES, SHARE CAPITAL AND DEFICIT

|   | 1977               | 1976               |
|---|--------------------|--------------------|
| Current Liabilities:                                |                    |                    |
| Accounts payable and accrued .....                  | \$ 378,622         | \$ 402,945         |
| Unearned revenue .....                              | 10,294             | 13,529             |
| Current portion of long-term debt .....             | 215,980            | 162,124            |
|   | 604,896            | 578,598            |
| Funds held in trust — contra .....                  | —                  | 52,996             |
| Long-term debt, less current portion (Note 6) ..... | 611,449            | 741,052            |
| Share capital (Note 7)                              |                    |                    |
| Authorized —  |                    |                    |
| 5,000,000 shares without nominal or par value       |                    |                    |
| 100,000 preferred shares with a nominal or          |                    |                    |
| par value of \$20 each                              |                    |                    |
| Issued —  |                    |                    |
| 2,138,139 shares without nominal or par value ..... | 943,836            | 793,836            |
| Deficit. ....                                       | (667,377)          | (898,377)          |
|   | 276,459            | (104,541)          |
| Commitments (Note 8)                                |                    |                    |
|   | <u>\$1,492,804</u> | <u>\$1,268,105</u> |

APPROVED BY THE BOARD:

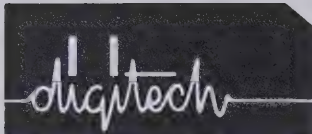


DIRECTOR:



DIRECTOR:





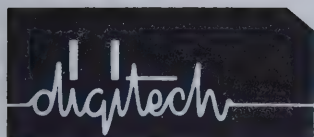
DIGITECH LTD.

## Consolidated Statement of Income and Deficit

Year Ended June 30

|   | 1977                | 1976<br>(Restated)<br>(Note 10) |
|---|---------------------|---------------------------------|
| REVENUE .....                                       | \$4,398,643         | \$3,729,084                     |
| EXPENSES:   |                     |                                 |
| Operating and selling .....                         | 3,210,636           | 2,738,862                       |
| General and administrative .....                    | 648,314             | 703,822                         |
| Interest —  |                     |                                 |
| Long-term debt .....                                | 68,357              | 76,661                          |
| Other .....   | 8,966               | (101)                           |
| Depreciation and amortization of fixed assets ..... | 107,136             | 241,383                         |
| Amortization of programs and systems .....          | 71,063              | 68,313                          |
| Amortization of goodwill (Note 5) .....             | 2,371               | —                               |
| Gain on disposal of equipment .....                 | —                   | (20,323)                        |
|   | <u>4,116,843</u>    | <u>3,808,617</u>                |
| INCOME (LOSS) from continuing operations            |                     |                                 |
| before income taxes .....                           | 281,800             | (79,533)                        |
| Provision for income taxes (Note 9) .....           | 134,000             | 7,850                           |
| INCOME (LOSS) from continuing operations .....      | 147,800             | (87,383)                        |
| LOSS from discontinued operations (Note 10) .....   | (40,246)            | (157,161)                       |
| INCOME (LOSS) before extraordinary items .....      | 107,554             | (244,544)                       |
| Extraordinary items:                                |                     |                                 |
| Loss arising from discontinuance of                 |                     |                                 |
| certain operations (Note 10) .....                  | (10,554)            | (218,697)                       |
| Reduction in income taxes (Note 9) .....            | 134,000             | 7,850                           |
|   | <u>123,446</u>      | <u>(210,847)</u>                |
| INCOME (LOSS) for the year .....                    | 231,000             | (455,391)                       |
| DEFICIT, beginning of year .....                    | (898,377)           | (442,986)                       |
| DEFICIT, end of year .....                          | <u>\$ (667,377)</u> | <u>\$ (898,377)</u>             |
| EARNINGS (LOSS) per share: (Note 11)                |                     |                                 |
| Income (loss) from continuing operations .....      | \$ .08              | \$ (.05)                        |
| Income (loss) before extraordinary items .....      | \$ .06              | \$ (.15)                        |
| Extraordinary items .....                           | .06                 | (.13)                           |
| Income (loss) for the year .....                    | <u>\$ .12</u>       | <u>\$ (.28)</u>                 |





DIGITECH LTD.

## Consolidated Statement of Changes in Financial Position

Year Ended June 30

|   | 1977      | 1976<br>(Restated)<br>(Note 10) |
|---|-----------|---------------------------------|
| <b>WORKING CAPITAL PROVIDED BY:</b>   |           |                                 |
| Operations . . . . .  | \$462,370 | \$209,840                       |
| Loss from discontinued operations before<br>depreciation and amortization . . . . . | (40,246)  | (73,101)                        |
|   | 422,124   | 136,739                         |
| Extraordinary items   |           |                                 |
| Funds provided from (used in) disposition of:                                       |           |                                 |
| Digitech Inc. . . . .   | (10,953)  | —                               |
| Digital Technology (London) Ltd. . . . .  | 2,643     | (24,952)                        |
|   | 413,814   | 111,787                         |
| Proceeds on disposal of equipment. . . . .  | —         | 63,900                          |
| Repayment of notes receivable . . . . .   | 2,208     | 2,208                           |
| Issue of share capital . . . . .  | 150,000   | 1,600                           |
| Issue of long-term debt . . . . .   | 75,000    | —                               |
| Other . . . . .   | —         | 489                             |
|   | 641,022   | 179,984                         |
| <br><b>WORKING CAPITAL USED FOR:</b>  |           |                                 |
| Purchase of fixed assets and programs . . . . .                                     | 110,352   | 40,018                          |
| Prepaid lease rentals . . . . .   | —         | 10,000                          |
| Repayment of long-term debt and changes<br>in current portion . . . . .             | 217,453   | (25,556)                        |
| Investment in subsidiary including<br>working capital deficiency . . . . .          | 3,829     | —                               |
|   | 331,634   | 24,462                          |
| Increase in working capital. . . . .  | 309,388   | 155,522                         |
| Working capital, beginning of year . . . . .  | 178,647   | 23,125                          |
| Working capital, end of year . . . . .  | \$488,035 | \$178,647                       |





DIGITECH LTD.

## Notes to Consolidated Financial Statements

June 30, 1977

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Digitech Ltd. and its subsidiaries all of which are wholly owned, except for one which is 51% owned.

**INVENTORIES** Geological and geophysical work in progress is valued at the lower of estimated cost or net realizable value; other inventories at the lower of estimated cost or replacement cost.

**DEPRECIATION AND AMORTIZATION** Is on a straight line basis at rates designed to amortize costs over useful lives; computer equipment and accessories over periods not exceeding six years assuming no salvage values; furniture and fixtures over ten years; and leasehold improvements over the terms of the leases. Cost of programs, systems and data purchased from others are amortized over periods not exceeding five years. The undepreciated or unamortized cost of any items having doubtful future revenue potential are written off. Current program development costs are expensed as incurred.

**WINDING-UP OF SUBSIDIARY** Effective July 2, 1977, the operations of the wholly owned subsidiary, Digitech Systems Co. Ltd., were combined with those of the parent company, Digitech Ltd., and procedures initiated for winding up the subsidiary under the provisions of The Companies Act (Alberta). On June 30, 1977, in connection with the winding-up, Digitech Systems Co. Ltd. had an outstanding bank loan of \$557,864 and Digitech Ltd. had a term deposit in the same amount. On July 5, 1977, the term deposit was applied against the bank loan. Accordingly, neither the term deposit nor the loan have been reflected in the accounts at June 30, 1977.

### 2. INVENTORIES

|  | 1977             | 1976             |
|--|------------------|------------------|
| Computer tapes, spare parts and supplies . . . . . | \$ 82,808        | \$ 75,047        |
| Work in progress . . . . .                         | 116,616          | 70,121           |
|  | <u>\$199,424</u> | <u>\$145,168</u> |

### 3. AMOUNTS OWING FROM SHAREHOLDERS

Notes receivable represent amounts owing from shareholders, one of whom is a director and officer. These amounts arose as a result of share purchase agreements.

Under a former share purchase plan 29,039 shares were issued and notes received in consideration. The notes receivable were previously written off. The shares are held in trust and upon sale, the Company will receive the proceeds.

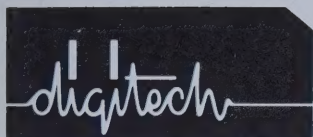
### 4. FIXED ASSETS, PROGRAMS AND SYSTEMS

|  | Cost               | Accumulated depreciation and amortization | 1977 Net Book value | 1976 Net book value |
|--|--------------------|---|---------------------|---------------------|
| Computer equipment and accessories . . . . . | \$1,035,449        | \$ 953,901                                | \$ 81,548           | \$ 85,608           |
| Furniture and fixtures . . . . .             | 155,234            | 98,861                                    | 56,373              | 67,990              |
| Leasehold improvements . . . . .             | 181,251            | 66,555                                    | 114,696             | 112,094             |
|  | <u>1,371,934</u>   | <u>1,119,317</u>                          | <u>252,617</u>      | <u>265,692</u>      |
| Programs and systems . . . . .               | 358,065            | 241,846                                   | 116,219             | 170,782             |
|  | <u>\$1,729,999</u> | <u>\$1,361,163</u>                        | <u>\$368,836</u>    | <u>\$436,474</u>    |

### 5. PURCHASE OF 51% OWNED SUBSIDIARY

Effective February 28, 1977, the Company subscribed for 51% of the capital stock of the marketing and consulting firm, Nobbs, Buchner & Associates Ltd. and entered into a two year service contract with that company. Liabilities exceeded assets at date of acquisition resulting in the recording of goodwill in the amount of \$14,226. This amount is included in other assets and is being amortized over the term of the service agreement.





## 6. LONG TERM DEBT

|   | 1977             | 1976             |
|---|------------------|------------------|
| 7 <sup>3</sup> / <sub>4</sub> % Promissory Notes, unsecured, carrying restrictions on incurring debt and lease commitments and other matters, repayable in five equal annual installments from 1977 to 1981 inclusive. .... | \$685,566        | \$735,566        |
| 13 % Chattel Mortgage, secured by specific equipment, due in monthly installments including principal and interest of \$3,414 .....   | 55,513           | 86,981           |
| 12 % Chattel Mortgage, secured by specific equipment, due in monthly installments of \$1,500 plus interest .....  | 58,500           | —                |
| Conditional sales agreement (non-interest bearing) .....  | 15,000           | —                |
| Advances from minority shareholders of subsidiary .....   | 12,850           | —                |
| Conditional sales agreement, secured by programs and systems .....  | —                | 55,629           |
| Agreement for sale payable .....  | —                | 25,000           |
|   | 827,429          | 903,176          |
| LESS: Current portion .....   | 215,980          | 162,124          |
|   | <u>\$611,449</u> | <u>\$741,052</u> |

Amounts due in each of the next five years:

|      |           |      |           |
|------|-----------|------|-----------|
| 1978 | \$215,980 | 1981 | \$151,613 |
| 1979 | \$184,759 | 1982 | \$ 97,114 |
| 1980 | \$165,113 |      |           |

## 7. SHARE CAPITAL

On December 15, 1976, two officers previously controlling directly and indirectly 590,349 shares (36 %) subscribed through a corporation for 500,000 treasury shares for a cash consideration of \$150,000. As a result, they increased their shareholdings to 51 % of the issued and outstanding shares of the Company. As a condition of the equity investment, the holders of the 7<sup>3</sup>/<sub>4</sub> % promissory notes payable agreed to relinquish their options with respect to 567,982 shares and the option price of the remaining 264,132 shares was reduced from \$0.50 to \$0.30 per share. In the event that the options on all or any of the 246,132 shares are exercised, the two officers have the right to purchase the same number of shares at the same price.

Of the authorized but unissued common stock 557,444 shares were reserved at June 30, 1977:

- (i) 246,132 shares at \$0.30 each, exercisable until November 1, 1981, by holders of the 7<sup>3</sup>/<sub>4</sub> % Promissory Notes.
- (ii) 246,132 shares at \$0.30 each, exercisable until November 1, 1981, contingent upon the exercise in (i) above.
- (iii) 65,180 shares, exercisable at \$0.40 per share until July 31, 1981, under the Employee Stock Option Plan.

## 8. COMMITMENTS

The Company's equipment lease and maintenance commitments total approximately \$1,050,000 per year through 1981. The major premises lease aggregates \$236,772 per year and expires in 1983.

The Company's bank has issued an irrevocable letter of credit to a supplier in the amount of \$125,000. The letter of credit is secured by an assignment of the Company's accounts receivable.





## 9. INCOME TAXES

The provision for income taxes represents the taxes which would have been payable on income of approximately \$285,000. By claiming capital cost allowances for tax purposes in excess of the depreciation and amortization recorded in the accounts and by claiming tax loss carry-forwards, no income taxes are payable. This reduction in taxes otherwise payable has been shown as an extraordinary item of income.

No provision has been made for possible future tax benefits which may result from claiming costs not yet claimed for tax purposes. At June 30, 1977 the undepreciated cost of fixed assets, programs and systems for tax purposes exceeded the related amounts for accounting purposes by approximately \$840,000. Actual tax losses remaining to be carried forward may be claimable to an amount of approximately \$500,000. These losses expire in 1981.

## 10. DISCONTINUED OPERATIONS

In June 1976, the decision was made to discontinue operations of the wholly owned subsidiary, Digital Technology (London) Limited. Provision was made at June 30, 1976 for estimated costs of discontinuing such operations. During fiscal 1977, operations were discontinued and actual costs were \$2,643 less than estimated.

Effective February 28, 1977, the shares of the wholly owned subsidiary, Digitech Inc. (Denver) were sold for \$2,000 cash and an 8% note of \$6,000. An 8% note for \$72,000 payable by Digitech Inc. was also received with respect to advances previously made by the Company. Since Digitech Inc. had incurred significant losses, since its liabilities exceeded its assets and since the notes are payable \$33,500 in fiscal 1978, \$27,000 in fiscal 1979 and \$17,500 in fiscal 1980, no recognition has been given in the accounts to the notes receivable. The resulting loss on disposal of \$13,197 has been shown as an extraordinary loss. Amounts collected on the notes will constitute extraordinary items of income and could amount to \$78,000.

Results of operations of these subsidiaries are included in "Loss from discontinued operations" as follows:

|                          | 1977            | 1976             |
|--------------------------|-----------------|------------------|
| Revenue .....            | \$37,298        | \$676,923        |
| Costs and expenses ..... | 77,544          | 834,084          |
| Loss .....               | <u>\$40,246</u> | <u>\$157,161</u> |

The fiscal 1976 accounts have been restated to reflect separately the results of discontinued operations as indicated above. Assets and liabilities at June 30, 1976 have not been segregated. Excluding inter-company accounts and trust accounts, such assets and liabilities were not material.

## 11. EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of shares (1,908,972) outstanding during the year. If it were assumed that the 500,000 shares issued during the year and that all shares reserved for issue (557,444) had been issued at the beginning of the year, earnings per share would have been:

|   |               |
|---|---------------|
| Income from continuing operations ..... | \$ .06        |
| Income before extraordinary items ..... | \$ .04        |
| Extraordinary items .....               | .05           |
| Income for the year .....               | <u>\$ .09</u> |

## 12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers, including performance bonuses, amounted to \$224,069 during fiscal 1977.









digitech

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